

**MINUTES OF THE
TAX REFORM TASK FORCE**

Wednesday, November 2, 2005 – 8:00 a.m. – Room W135 House Building

Members Present:

Sen. Curtis S. Bramble, Senate Chair
Rep. Wayne A. Harper, House Chair
Sen. Howard A. Stephenson
Pres. John L. Valentine
Rep. Ralph Becker
Rep. John Dougall
Rep. Gregory H. Hughes
Rep. Todd E. Kiser
Rep. Rosalind J. McGee
Rep. Merlynn T. Newbold
Rep. Gordon E. Snow
Rep. Stephen H. Urquhart
Comm. Pam R. Hendrickson

Members Absent:

Sen. Mike Dmitrich
Mr. Neil H. Ashdown

Staff Present:

Mr. Phillip V. Dean, Policy Analyst
Mr. Bryant R. Howe, Assistant Director
Ms. Angela D. Oakes, Associate General Counsel
Ms. Rebecca L. Rockwell, Associate General Counsel
Ms. Phalin L. Flowers, Legislative Secretary

Note: A list of others present, copy of related materials, and an audio recording of the meeting can be found at www.le.utah.gov.

1. Task Force Business

Chair Bramble called the meeting to order at 8:26 a.m.

MOTION: Rep. Urquhart moved to approve the minutes of the October 12, 2005 meeting. The motion passed unanimously with Pres. Valentine and Rep. Hughes absent for the vote.

2. Review of Comments Received at Task Force Public Hearings

Mr. Howe distributed and discussed "Tax Reform Task Force: Public Hearings" and the minutes of the Salt Lake City, Vernal, Price, Provo, Cedar City, and St. George Public Hearings.

Rep. Becker questioned some of the categorization of public comments.

Mr. John Hiskey, Sandy City, said that his city supports the compromise of the hold harmless provision proposed by the Utah League of Cities and Towns, but said that he was concerned about shifting the one percent local option sales and use tax to schools instead of local governments.

3. Review and Adoption of Task Force Recommendations

Staff distributed "Draft Legislation and Proposals Under Consideration."

Rep. Dougall distributed and discussed 2006 General Session draft legislation "Resolution Regarding Property Tax on Personal Property." He explained the need to reduce the compliance burden on small businesses.

Rep. Becker said that while he supports efforts to reduce the compliance burden of the personal property tax, this constitutional amendment goes too far.

Rep. Snow said that this resolution includes all personal property, not just personal property owned by a small business. If the property tax were removed on all business personal property, it would result in a major tax shift to other taxpayers in some counties.

Commissioner Hendrickson said that state and local property tax officials are examining the feasibility of an alternative personal property tax return that would reduce the compliance burden on small businesses.

Sen. Bramble said that redevelopment agency projects also cause a shift of the property taxes.

MOTION: Rep. Dougall moved to recommend 2006 General Session draft legislation "Resolution Regarding Property Tax on Personal Property" to the Revenue and Taxation Interim Committee. The motion passed with Rep. Becker, Rep. McGee, Rep. Snow, and Comm. Hendrickson voting in opposition and Pres. Valentine and Rep. Hughes absent for the vote.

Ms. Oakes distributed and discussed 2006 General Session draft legislation "Voted Leeway Amendments" and 2006 General Session draft legislation "Limited Exemptions to Truth in Taxation."

Sen. Bramble clarified that voted leeways may only be considered on certain election dates.

Mr. Zane Woolstenhulme, South Summit School District, spoke against a voted leeway that has a sunset clause.

Mr. McKell Withers, Salt Lake City School District, said his district holds truth in taxation hearings every year.

Mr. Vik Arnold, Utah Education Association, said the draft legislation would create undue burden.

Mr. Larry Newton, State Office of Education, explained the original intent the Property Tax Working Group had when creating draft legislation on this issue.

MOTION: Sen. Stephenson moved to modify 2006 General Session draft legislation "Voted Leeway Amendments" and 2006 General Session draft legislation "Limited Exemptions to Truth in Taxation" and present them at the next meeting. The motion passed unanimously with Pres. Valentine and Rep. Hughes absent for the vote.

Ms. Rockwell distributed and discussed 2006 General Session draft legislation "Sales and Use Tax Exemption - Telecommunications."

Mr. Doug Hurst, Qwest, said that the current sales and use tax revenue loss estimate from the Utah State Tax Commission on 2006 General Session draft legislation "Sales and Use Tax Exemption -

Telecommunications" is overstated. He said that when the original fiscal note was prepared that telecommunications companies were making considerable capital investments in Utah in preparation for the 2002 Winter Olympic Games. Since then the amount of capital investment has decreased. He asked the Task Force to wait to take action on the draft legislation until the new fiscal note estimate is presented.

Mr. John McNamera, AT&T, spoke in favor of 2006 General Session draft legislation "Sales and Use Tax Exemption - Telecommunications."

Mr. Steve Mecham, Utah Rural Telecom Association, expressed support for 2006 General Session draft legislation "Sales and Use Tax Exemption - Telecommunications."

MOTION: Rep. Newbold moved to recommend 2006 General Session draft legislation "Sales and Use Tax Exemption - Telecommunications" to the Revenue and Taxation Interim Committee. The motion passed with Rep. Becker and Rep. McGee voting in opposition and Rep. Hughes absent for the vote.

Ms. Oakes distributed and discussed 2006 General Session draft legislation "Property Tax - Circuit Breaker Qualifying Limits" and "Find Your Retirement Age."

Rep. Becker proposed leaving the benefit age of the circuit breaker at 65.

Ms. Sheila Walsh McDonald, Salt Lake Community Action Program, spoke in support of 2006 General Session draft legislation "Property Tax - Circuit Breaker Qualifying Limits."

MOTION: Rep. Becker moved to recommend 2006 General Session draft legislation "Property Tax - Circuit Breaker Qualifying Limits" to the Revenue and Taxation Interim Committee.

SUBSTITUTE MOTION: Rep. Harper moved to amend 2006 General Session draft legislation "Property Tax - Circuit Breaker Qualifying Limits" by deleting the brackets and restoring the original language on lines 90 and 92 and to recommend the draft legislation to the Revenue and Taxation Interim Committee.

Rep. Harper withdrew his substitute motion.

SUBSTITUTE MOTION: Rep. Harper moved to amend 2006 General Session draft legislation "Property Tax - Circuit Breaker Qualifying Limits" by deleting the brackets and restoring the original language on lines 90 and 92. The motion passed unanimously.

MOTION: Rep. Dougall moved to continue discussion of the circuit breaker program to the November 7, 2005 meeting.

SUBSTITUTE MOTION: Rep. Becker moved to recess. The motion passed unanimously.

Ms. Rockwell distributed and discussed 2006 General Session draft legislation "Sales and Use Tax Exemption for Sales of Certain Agricultural Products."

MOTION: Rep. Kiser moved to recommend 2006 General Session draft legislation "Sales and Use Tax Exemption for Sales of Certain Agricultural Products" to the Revenue and Taxation Interim Committee. The motion passed with Rep. Becker voting in opposition and Pres. Valentine absent for the vote.

Rep. Harper distributed and discussed 2006 General Session draft legislation "Sales and Use Tax - Manufacturing Exemptions Amendments."

Comm. Bruce Johnson, Utah State Tax Commission, spoke to the Task Force on the draft legislation.

MOTION: Rep. Harper moved to recommend 2006 General Session draft legislation "Sales and Use Tax - Manufacturing Exemptions Amendments" to the Revenue and Taxation Interim Committee. The motion passed unanimously with Pres. Valentine and Rep. Dougall absent for the vote.

Rep. Harper distributed and discussed 2006 General Session draft legislation "Sales and Use Tax Exemption for Semiconductor Fabricating, Processing, Research, or Development Materials."

MOTION: Rep. McGee moved to refer 2006 General Session draft legislation "Sales and Use Tax Exemption for Semiconductor Fabricating, Processing, Research, or Development Materials" to the Revenue and Taxation Interim Committee without recommendation.

Mr. Stan Lockhart, Micron Technology, spoke in favor of 2006 General Session draft legislation "Sales and Use Tax Exemption for Semiconductor Fabricating, Processing, Research, or Development Materials." He spoke in favor of the continuation of this exemption.

Comm. Bruce Johnson, Utah State Tax Commission, explained that exempt manufacturing equipment must be used in the manufacturing process.

SUBSTITUTE MOTION: Rep. Harper moved to recommend 2006 General Session draft legislation "Sales and Use Tax Exemption for Semiconductor Fabricating, Processing, Research, or Development Materials" to the Revenue and Taxation Interim Committee with a favorable recommendation. The motion passed with Rep. Becker, Rep. Hughes, Rep. McGee, and Rep. Urquhart voting in opposition.

Ms. Oakes distributed and discussed "Proposed language change to Line 34" as an amendment to 2006 General Session draft legislation "Property Tax - Circuit Breaker Qualifying Limits."

Ms. Carmen Sanone, Salt Lake County Aging Services, spoke in favor of 2006 General Session draft legislation "Property Tax - Circuit Breaker Qualifying Limits."

MOTION: Rep. Becker moved to recommend 2006 General Session draft legislation "Property Tax - Circuit Breaker Qualifying Limits" with the proposed language change to line 34. The motion passed unanimously.

MOTION: Sen. Stephenson moved to proceed to the next item and to consider 2006 General Session draft legislation "Property Tax - Definition of Intangible Property" at the next meeting. The motion passed unanimously with Rep. Becker absent for the vote.

Ms. Oakes distributed and discussed 2006 General Session draft legislation "Local Option Sales and Use Tax Distribution Amendments."

Mr. Roger Tew and Mr. Lincoln Shurtz, Utah League of Cities and Towns, told the Task Force that while their organization supports phasing out the hold harmless provision, it must be carefully crafted to avoid harming affected municipalities. They asked that the Task Force consider an alternative proposal that is currently being developed.

Mr. David Spatafore, representing Riverdale City, explained that the city supports what the Utah League of Cities and Towns is attempting to accomplish but that removing the hold harmless provision would negatively affect Riverdale.

MOTION: Rep. Dougall moved to recommend 2006 General Session draft legislation "Local Option Sales and Use Tax Distribution Amendments" to the Revenue and Taxation Interim Committee. The motion passed with Rep. McGee and Rep. Snow voting in opposition and Rep. Becker and Rep. Hughes absent for the vote.

4. Other Tax Issues

Chair Bramble distributed and discussed "Individual Income Tax Sample Cases."

The Task Force discussed four individual income tax proposals.

Ms. Sarah Wilhelm, Utah Issues, said that "Individual Income Tax Sample Cases" starts at \$25,000 AGI, which is above the federal poverty level and leaves out a large portion of citizens who fall below that line. She said the chart does not analyze how the four individual income tax proposals would affect low income citizens.

Rep. Urquhart proposed removing the sales and use tax from sales of food. He explained that this issue was the most commonly raised subject at the Task Force's public hearings. He said he spoke with the House Majority Leader and the Speaker of the House to propose a removal of the sales and use tax on food. He explained that the initial cost would be approximately \$260 million. He proposed raising the tax on other items which would create a tax cut of approximately \$36 million at the state level instead of the initial \$260 million.

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Staff distributed and discussed "Change in Property Tax Liability for Median Value Home - Sales and Use Tax for the Minimum School Program - Property Tax for Municipalities and Counties."

Sen. Bramble distributed a letter from certified public accountants.

MOTION: Rep. Dougall moved to recess for lunch. The motion passed unanimously.

Chair Bramble recessed the meeting at 12:15 p.m.

Chair Bramble reconvened the meeting at 1:30 p.m.

5. Sales and Use Tax Issues

Rep. Urquhart continued the discussion of removing the sales and use tax on food. He said that a direct removal is preferable to a targeted credit because the tax relief is immediate.

Ms. Sarah Wilhelm, Utah Issues, spoke in favor of removing sales tax on food. She explained that the grocery tax credit was created as a compromise so that some relief for low income families would be considered this year.

Ms. Carmen Sanone, Salt Lake County Aging Services, spoke in favor of removing the sales tax on food but cautioned about shifting the tax to other areas because it will hurt the citizens they are trying to help.

Mr. Roger Tew, Utah League of Cities and Towns, said that removing the sales tax on food has merit but that he has concerns for cities that will lose revenue.

Mr. Karl Hendrickson, Utah Association of Counties, said the counties have not had a chance to discuss this issue yet but he raised the question of who would be responsible to help mitigate the costs of services to counties if this proposal were to pass.

Ms. Linda Hilton, Coalition of Religious Communities, thanked Rep. Urquhart for bringing this issue back to the Task Force for discussion. She said there are ways to redistribute revenues to cities that lose revenue from removing the sales and use tax on food.

Rep. McGee said the Task Force should seriously consider this proposal. She said that she prefers replacing the lost revenue through a more progressive income tax instead of increasing sales and use taxes on nonfood items. She spoke in favor of a more progressive income tax proposal.

Sen. Stephenson said that the Task Force should consider the economic development effects of its proposals. Efforts are also needed to increase wages in Utah. He spoke to the Task Force concerning exempting certain business inputs from the sales and use tax. He said such a proposal would exempt business inputs that have an economic life of three years or greater. This proposal would spur additional business investment and the creation of new jobs.

Rep. Kiser said that he supports the removal of the sales and use tax from sales of food. He said that this action would support families and ameliorate the regressive effects of eliminating the personal exemption under the income tax proposal.

Rep. Snow said that there are other necessities other than food. This proposal would increase the sales and use tax on other necessities that families must also purchase. He also questioned the revenue effects on rural municipalities that have a high portion of their sales and use tax base from the sales of food.

Rep. Snow asked if the exemption for telecommunications business inputs was for inputs with a one year economic life or greater or a three year economic life or greater. Ms. Rockwell clarified that the exemption for telecommunications business inputs was for inputs with a one year economic life or greater.

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Mr. Mike Jerman, Utah Taxpayers Association, distributed and discussed "50-state Analysis of Manufacturing Sales Tax Exemptions."

Sen. Stephenson said that this proposal is currently being drafted and can be discussed at the next meeting.

Rep. Harper spoke to the Task Force concerning the taxation of newspapers. He spoke in favor of imposing a tax on all printed material.

MOTION: Rep. Snow moved to table the discussion of repealing the sales and use tax exemption for sales of newspapers. The motion passed with Pres. Valentine, Rep. Dougall, and Rep. Harper voting in opposition and Rep. Hughes absent for the vote.

7. Other Items / Adjourn

MOTION: Comm. Hendrickson moved to adjourn the meeting. The motion passed unanimously with Rep. Hughes absent for the vote.

Chair Bramble adjourned the meeting at 3:09 p.m.